

# **Kalamazoo Regional Educational Service Agency**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# Kalamazoo Regional Educational Service Agency

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# Kalamazoo Regional Educational Service Agency

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## Independent Auditor's Report

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kalamazoo Regional Educational Service Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency as of June 30, 2008 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated November 11, 2008 on our consideration of Kalamazoo Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

November 11, 2008

# **Kalamazoo Regional Educational Service Agency**

## **Management's Discussion and Analysis**

This section of Kalamazoo Regional Educational Service Agency's (the "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Agency's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Kalamazoo Regional Educational Service Agency financially as a whole. The district-wide financial statements provide information about the activities of the whole Agency, presenting both an aggregate view of the Agency's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Agency's operations in more detail than the district-wide financial statements by providing information about the Agency's most significant funds - the General Fund, the Special Education Fund, and the 2008 Capital Projects Fund - as well as information on the Agency's Debt Service, Enterprise, and Internal Service Funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the Agency acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### **Basic Financial Statements**

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

### ***Reporting the Agency as a Whole - District-wide Financial Statements***

One of the most important questions asked about the Agency is, "As a whole, what is the Agency's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Agency's financial statements, report information on the Agency as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

These two statements report the Agency's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Agency's operating results. However, the Agency's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education and services provided and the safety of the schools, to assess the overall health of the Agency.

The statement of net assets and the statement of activities report the governmental and business-type activities for the Agency, which encompass all of the Agency's services, including instruction, support services, and community services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

### ***Reporting the Agency's Most Significant Funds - Fund Financial Statements***

The Agency's fund financial statements provide detailed information about the most significant funds - not the Agency as a whole. Some funds are required to be established by state law and by bond covenants. However, the Agency establishes several other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental and proprietary funds of the Agency use the following accounting approach:

**Governmental Funds** - The General Fund, Special Education Fund, 2008 Capital Projects Fund, 2008 Debt Service Fund, and Durant Debt Service Fund are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Agency and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. We describe the relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

**Proprietary Funds** - The Agency has one Enterprise Fund and two Internal Service Funds that are reported in the proprietary funds. These funds are reported using the accrual basis of accounting, just as in the district-wide statements described above.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

### *The Agency as Trustee - Reporting the Agency's Fiduciary Responsibilities*

The Agency is the trustee, or fiduciary, for its student activity funds. All of the Agency's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the Agency's other financial statements because the Agency cannot use these assets to finance its operations. The Agency is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **The Agency as a Whole**

Recall that the statement of net assets provides the perspective of the Agency as a whole. Table I provides a summary of the Agency's net assets as of June 30:

TABLE I

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
	(in millions)		(in millions)	
<b>Assets</b>				
Current and other assets	\$ 41.3	\$ 14.2	\$ 0.1	\$ -
Capital assets	4.0	3.8	-	-
Total assets	45.3	18.0	0.1	-
<b>Liabilities</b>				
Current liabilities	10.4	7.7	0.1	-
Long-term liabilities	25.6	1.3	-	-
Total liabilities	36.0	9.0	0.1	-
<b>Net Assets</b>				
Invested in property and equipment - Net of related debt	2.2	2.5	-	-
Restricted	2.0	2.8	-	-
Unrestricted	5.1	3.7	-	-
Total net assets	<u>\$ 9.3</u>	<u>\$ 9.0</u>	<u>\$ -</u>	<u>\$ -</u>

The above analysis focuses on the net assets (see Table I). The change in net assets of the Agency's governmental activities is \$0.3 million and is discussed below (see Table 2). The Agency's net assets were \$9.3 million at June 30, 2008. Capital assets, net of related debt totaling \$2.2 million, compare the original cost, less depreciation of the Agency's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints associated with special education expenditures and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. The Agency has restricted net assets in the amount of \$2.0 million relating to the Special Education Fund. The remaining amount of net assets (\$5.1 million) was unrestricted.



# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

The \$5.1 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Agency to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Agency as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

TABLE 2

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
	(in millions)		(in millions)	
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 4.3	\$ 4.5	\$ 0.9	\$ -
Federal grants and entitlements	12.4	10.8	-	-
State categoricals	6.0	6.9	-	-
Operating grants	2.4	2.7	-	-
General revenue:				
Property taxes	33.8	32.1	-	-
State foundation allowance	1.5	1.6	-	-
Other	0.9	1.0	-	-
Total revenue	61.3	59.6	0.9	-
<b>Functions/Program Expenses</b>				
Instruction	12.0	11.0	-	-
Support services	15.9	16.2	-	-
Community services	4.5	4.0	-	-
Intergovernmental transfers	28.3	27.1	-	-
Interest on long-term debt	0.3	0.1	-	-
Technology services	-	-	0.9	-
Total functions/program expenses	61.0	58.4	0.9	-
<b>Increase in Net Assets</b>	<u>\$ 0.3</u>	<u>\$ 1.2</u>	<u>\$ -</u>	<u>\$ -</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$61.0 million. Certain activities were partially funded from those who benefited from the programs (\$4.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$20.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$33.8 million in taxes, \$1.5 million in state foundation allowance, and \$0.9 million in other revenues, i.e., interest and general entitlements. The Agency experienced an increase in net assets of \$0.3 million.

# **Kalamazoo Regional Educational Service Agency**

## **Management's Discussion and Analysis (Continued)**

The Agency joined with other adjoining Intermediate School Districts to develop a technology services consortium. The business-type activities show the first year results for this collaborative venture. The cost of our business-type activities this year was \$0.9 million. These activities were funded by those who benefited by the services provided (\$0.9 million). There was no significant increase in net assets for business-type activities.

As discussed above, the net cost shows the financial burden that was placed on the State and the Agency's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of Agency operating revenue sources, the Board of Education and administration must annually evaluate the needs of the Agency and balance those needs with state-prescribed available unrestricted resources.

### **The Agency's Funds**

As we noted earlier, the Agency uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Agency is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Agency's overall financial health.

As the Agency completed this year, the governmental funds reported a combined fund balance of \$31.3 million, which is an increase of \$24.8 million. The increase in fund balance was primarily due to the addition of the 2008 Capital Projects Fund (\$24.9 million), expenditures that were budgeted but not fully expended in the current year in the General Fund (\$0.6 million), and the planned expenditure (\$0.7 million) of the Special Education Fund fund balance.

General Fund fund balance is available to fund costs related to allowable agency operating purposes. Special Education Fund fund balance is available to fund future costs related to the Agency's special education programs. Durant debt obligations are funded by annual state appropriation, Debt Service Fund fund balance will fund future debt service payments, and the 2008 Capital Projects Fund fund balance is available to fund capital projects approved by the voters in November 2007.

### **Budgetary Highlights**

Over the course of the year, the Agency revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. Schedules showing the Agency's original and final budget amounts compared with amounts actually paid and received are provided in the required supplemental information of these financial statements.

# **Kalamazoo Regional Educational Service Agency**

## **Management's Discussion and Analysis (Continued)**

### ***General Fund Budgetary Highlights***

The General Fund actual revenue was \$24.9 million. That amount is above the original budget estimate of \$24.2 million and below the final amended budget of \$26.6 million. The \$2.4 million variance between the original and the final budget was due to additional programs and grants awarded to the Agency (\$1.7 million), additional services provided by the technology services division (\$0.4 million), and additional tax collections, interest earnings and other services provided (\$0.3 million). The \$1.7 million variance between the final amended budget and the 2008 actual results was due to the deferral of federal, state, and local grants received in the current fiscal year to be spent in the next fiscal year.

The actual expenditures and other financing uses of the General Fund were \$24.3 million, which is above the original budget estimate of \$24.1 million and below the final amended budget of \$26.3 million. The \$2.2 million variance between the original and final budget was due to additional programs and grants (\$1.6 million), additional technology services (\$0.5 million) and other expenditure variances (\$0.1 million). The \$2.0 million variance between the final amended budget and the 2008 actual results was primarily due to the anticipation of fully expending grant revenue. Expenditures will be incurred in the next fiscal year.

The General Fund had total revenues of \$24.9 million and total expenditures of \$24.3 million with an ending fund balance of \$4.1 million.

### ***Special Education Fund Budgetary Highlights***

The Special Education Fund actual revenue was \$36.3 million. That amount is above the original budget estimate of \$34.8 million and above the final amended budget of \$35.8 million. The \$1.0 million variance between the original and final budget was due to additional state funding based on increased enrollment and a corresponding increase in state reimbursements (\$0.5 million), an increase in tax revenues (\$0.4 million), and additional grants and other reimbursements (\$0.1 million). The \$0.5 million variance between the final amended budget and the 2008 actual results was due to additional tax revenue and reimbursements for services provided to students.

The actual expenditures of the Special Education Fund were \$36.9 million, which is above the original budget of \$34.8 million and below the final amended budget of \$37.4 million. The \$2.6 million variance between the original and final budget was due to additional programming needs (\$0.1 million) and additional dollars budgeted for reimbursement to local districts for special education programming (\$2.5 million). The \$0.5 million variance between the final amended budget and the 2008 actual results was due to budgeted expenditures in the program areas that were not fully expended in the current year.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

### Capital Assets and Debt Administration

#### **Capital Assets**

As of June 30, 2008, the Agency had \$9.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$463,830.

	2008	2007
Land	\$ 390,377	\$ 390,377
Construction in progress	491,956	-
Buildings and building improvements	5,222,502	5,199,431
Vehicles, furniture, and equipment	3,112,003	3,163,200
Total capital assets	<u><u>\$ 9,216,838</u></u>	<u><u>\$ 8,753,008</u></u>

This year's additions of \$610,723 included a new delivery van, assistive technology equipment for students, digital duplicating equipment, and operating system software upgrades all totaling \$118,767 and the construction in progress addition of \$491,956 for the below indicated construction projects. The Agency disposed of \$146,893 in outdated equipment during this time period, including computers and related equipment, copy machines, AV equipment, and school furnishings.

During the 2008-2009 fiscal year, the Agency will begin a major construction project to be funded by the 2008 Capital Projects Fund, which will include a new special education facility and the remodel of the current Croyden Avenue School.

#### **Debt**

At the end of this year, the Agency had \$25.4 million in bonds outstanding. This includes the addition of \$24.7 million in bonds to fund the above mentioned projects.

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the Agency's boundaries. If the Agency issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The Agency has \$24.7 million of outstanding unqualified general obligation debt and is well below the State's statutory imposed limit.

Other obligations include accrued vacation pay, sick leave, and capital leases. We present more detailed information about our long-term liabilities in the notes to the financial statements.

# **Kalamazoo Regional Educational Service Agency**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

There were many factors considered in preparing Kalamazoo Regional Educational Service Agency's budgets for the 2008-2009 fiscal year. The most important factor affecting the budget is our tax base, which appears to be stable at this time. Another factor the Agency is dependent upon is state funding. Increases to state revenues for intermediate school districts are expected to be 1.0 percent. The third factor the Agency is dependent upon is federal grant revenue, which is expected to experience a slight decrease as compared to the prior year. The budget for the 2008-2009 school year also reflects the renewal of a three-year 1.5 mill enhancement millage approved by the voters of Kalamazoo County, of which 100 percent will be distributed back to our local K-12 school districts on a per pupil allocation basis for operating purposes. All of these factors were considered when preparing the Agency's budgets.

# Kalamazoo Regional Educational Service Agency

## Statement of Net Assets June 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 11,396,751	\$ 88,486	\$ 11,485,237
Receivables (Note 4)	4,736,334	40,382	4,776,716
Inventories	106,754	-	106,754
Prepaid costs	49,600	-	49,600
Restricted assets	24,989,599	-	24,989,599
Capital assets - Net (Note 5)	4,076,896	-	4,076,896
Total assets	45,355,934	128,868	45,484,802
<b>Liabilities</b>			
Accounts payable	1,443,648	95,224	1,538,872
Accrued payroll and other liabilities	2,804,713	25,661	2,830,374
Due to other governmental units	2,890,584	-	2,890,584
Deferred revenue (Note 4)	1,590,859	-	1,590,859
Long-term liabilities (Note 7):			
Due within one year	1,695,913	-	1,695,913
Due in more than one year	25,606,792	-	25,606,792
Total liabilities	36,032,509	120,885	36,153,394
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	2,213,726	-	2,213,726
Restricted:			
Debt service	3,262	-	3,262
Special education	2,037,282	-	2,037,282
Unrestricted	5,069,155	7,983	5,077,138
Total net assets	<u>\$ 9,323,425</u>	<u>\$ 7,983</u>	<u>\$ 9,331,408</u>

# Kalamazoo Regional Educational Service Agency

## Statement of Activities Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Operating				
	Charges for	Grants/		Governmental	Business-type	
Expenses	Services	Contributions		Activities	Activities	Total
<b>Functions/Programs</b>						
Primary government:						
Governmental activities:						
Instruction	\$ 11,985,817	\$ 564,847	\$ 10,695,920	\$ (725,050)	\$ -	\$ (725,050)
Support services	15,887,921	3,222,863	4,459,211	(8,205,847)	-	(8,205,847)
Community services	4,473,343	512,295	3,692,433	(268,615)	-	(268,615)
Intergovernmental transfers	28,298,543	-	1,913,894	(26,384,649)	-	(26,384,649)
Interest on long-term debt	315,180	-	-	(315,180)	-	(315,180)
Total governmental activities	60,960,804	4,300,005	20,761,458	(35,899,341)	-	(35,899,341)
Business-type activities -						
Technology services	876,404	882,397	-	-	5,993	5,993
Total primary government	<u>\$ 61,837,208</u>	<u>\$ 5,182,402</u>	<u>\$ 20,761,458</u>	(35,899,341)	5,993	(35,893,348)
General revenues:						
Property taxes, levied for general purposes				33,827,451	-	33,827,451
State aid not restricted to specific purposes				1,535,363	-	1,535,363
Interest and investment earnings				664,057	1,990	666,047
Other				234,841	-	234,841
Total general revenues				36,261,712	1,990	36,263,702
<b>Change in Net Assets</b>				362,371	7,983	370,354
<b>Net Assets</b> - Beginning of year				8,961,054	-	8,961,054
<b>Net Assets</b> - End of year				<u>\$ 9,323,425</u>	<u>\$ 7,983</u>	<u>\$ 9,331,408</u>

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	Special Education Fund	2008 Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 6,673,582	\$ 3,216,738	\$ -	\$ 3,262	\$ 9,893,582
Restricted assets (Note 3)	-	-	24,989,599	-	24,989,599
Receivables (Note 4)	2,078,881	2,557,633	99,820	-	4,736,334
Due from other funds (Note 6)	32,229	581,190	-	-	613,419
Inventories	106,754	-	-	-	106,754
Prepaid costs	47,792	655	-	-	48,447
Total assets	<u>\$ 8,939,238</u>	<u>\$ 6,356,216</u>	<u>\$ 25,089,419</u>	<u>\$ 3,262</u>	<u>\$ 40,388,135</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,031,922	\$ 216,653	\$ 150,446	\$ -	\$ 1,399,021
Accrued payroll and other liabilities	395,417	1,617,214	-	-	2,012,631
Due to other governmental units	1,200,729	1,689,855	-	-	2,890,584
Due to other funds (Note 6)	741,881	383,790	29,521	-	1,155,192
Deferred revenue (Note 4)	1,479,655	151,965	-	-	1,631,620
Total liabilities	4,849,604	4,059,477	179,967	-	9,089,048
<b>Fund Balances</b>					
Reserved:					
Inventories	106,754	-	-	-	106,754
Prepaid costs	47,792	655	-	-	48,447
Debt service	-	-	-	3,262	3,262
Bonded capital projects	-	-	24,909,452	-	24,909,452
Unreserved:					
Designated for RTSI	198,954	-	-	-	198,954
Designated for building project	-	300,000	-	-	300,000
Undesignated, reported in:					
General Fund	3,736,134	-	-	-	3,736,134
Special Revenue Funds	-	1,996,084	-	-	1,996,084
Total fund balances	<u>4,089,634</u>	<u>2,296,739</u>	<u>24,909,452</u>	<u>3,262</u>	<u>31,299,087</u>
Total liabilities and fund balances	<u>\$ 8,939,238</u>	<u>\$ 6,356,216</u>	<u>\$ 25,089,419</u>	<u>\$ 3,262</u>	<u>\$ 40,388,135</u>



# Kalamazoo Regional Educational Service Agency

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## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

**Fund Balance - Total Governmental Funds** \$ 31,299,087

Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the governmental funds:

Cost of capital assets	\$ 9,216,838	
Accumulated depreciation	<u>(5,139,942)</u>	4,076,896

Other long-term assets not available to pay current period expenditures are, therefore, deferred in the governmental funds	40,761
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Long-term liabilities are not due and payable in the current  
period and are not reported in the governmental funds:

Bonds and capital leases payable, including premium	(26,342,848)
Compensated absences and termination benefits	(570,294)
Retirement incentives	(37,058)

Accrued interest payable is not included as a liability in governmental funds	(429,774)
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Internal Service Funds are included as governmental activities	<u>1,286,655</u>
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**Net Assets - Governmental Activities** **\$ 9,323,425**

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Special Education Fund	2008 Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Local sources	\$ 14,590,037	\$ 23,470,083	\$ 147,423	\$ -	\$ 38,207,543
State sources	2,079,757	5,431,273	-	-	7,511,030
Federal sources	5,152,618	7,284,177	-	-	12,436,795
Intergovernmental	3,067,454	74,479	-	-	3,141,933
Total revenue	24,889,866	36,260,012	147,423	-	61,297,301
<b>Expenditures</b>					
Current:					
Instruction	665,364	11,228,723	-	-	11,894,087
Support services	7,498,625	8,871,581	-	-	16,370,206
Community services	4,211,587	248,738	-	-	4,460,325
Debt service:					
Principal	103,008	-	-	-	103,008
Interest	37,416	-	-	-	37,416
Other	-	-	96,015	-	96,015
Capital outlay	51,765	67,002	491,956	-	610,723
Intergovernmental transfers	11,770,953	16,527,590	-	-	28,298,543
Total expenditures	24,338,718	36,943,634	587,971	-	61,870,323
<b>Other Financing Sources</b>					
Proceeds from debt issued	-	-	24,671,738	3,262	24,675,000
Premium on debt issued	-	-	678,262	-	678,262
Total other financing sources	-	-	25,350,000	3,262	25,353,262
<b>Net Change in Fund Balance</b>	551,148	(683,622)	24,909,452	3,262	24,780,240
<b>Fund Balances - Beginning of year</b>	3,538,486	2,980,361	-	-	6,518,847
<b>Fund Balances - End of year</b>	<u>\$ 4,089,634</u>	<u>\$ 2,296,739</u>	<u>\$ 24,909,452</u>	<u>\$ 3,262</u>	<u>\$ 31,299,087</u>

# Kalamazoo Regional Educational Service Agency

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** \$ 24,780,240

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (367,213)	
Capitalized capital outlay	<u>610,723</u>	243,510

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of the carrying value of the disposed assets (10,048)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection (4,614)

Proceeds from bond issuance is not reported as financing sources in the statement of activities (24,675,000)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (278,992)

Payment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 103,008

Compensated absences, termination benefits, and retirement incentives are recorded when earned in the statement of activities. In the current year, more was earned than was paid out (102,915)

Underwriter's discount/premium (net) reported as revenue in the funds and amortized in the statement of activities (676,831)

Cost of debt issuance reported as expenditure in the funds and amortized in the statement of activities 95,812

Internal Service Funds are included as governmental activities 888,201

**Change in Net Assets of Governmental Activities** \$ 362,371

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise Fund - Technology	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and investments (Note 3)	\$ 88,486	\$ 1,503,169
Receivables - Net	6,058	-
Due from other funds	34,324	519,495
Prepaid costs	-	1,153
Total assets	128,868	2,023,817
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	88,769	19,466
Accrued liabilities	25,661	383,110
Self-insurance estimated liability (Note 8)	-	331,703
Due to other funds (Note 6)	6,455	2,883
Total liabilities	120,885	737,162
<b>Net Assets - Unrestricted</b>	<b>\$ 7,983</b>	<b>\$ 1,286,655</b>

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds

### Statement of Revenues, Expenses, and Changes in Fund Net Assets

### Year Ended June 30, 2008

	Enterprise Fund - Technology	Internal Service Funds
<b>Operating Revenues</b>		
Charges to other funds	\$ 52,568	\$ 4,587,244
Charges to other districts	829,829	-
	<hr/>	<hr/>
Total operating revenues	882,397	4,587,244
<b>Operating Expenses</b>		
Health benefits - Insurance	-	241,362
Health benefits - Claims	-	3,240,951
Health benefits - Administration	-	114,435
Retirement program benefits	-	133,303
Technology support expenses	876,404	-
	<hr/>	<hr/>
Total operating expenses	876,404	3,730,051
<b>Operating Income</b>	5,993	857,193
<b>Nonoperating Revenues - Interest income</b>	<hr/> 1,990	<hr/> 31,008
<b>Change in Net Assets</b>	7,983	888,201
<b>Net Assets - Beginning of year</b>	<hr/> -	<hr/> 398,454
<b>Net Assets - End of year</b>	<u><u>\$ 7,983</u></u>	<u><u>\$ 1,286,655</u></u>

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds - Internal Service Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Fund - Technology	Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Receipts from other funds	\$ 24,699	\$ 4,357,015
Receipts from other governments	823,771	-
Payments for employee compensation	(651,693)	-
Payments for supplies and purchased services	(110,281)	-
Payments to benefit providers	-	(3,767,014)
Net cash provided by operating activities	86,496	590,001
<b>Cash Flows from Investing Activities - Interest</b>	1,990	31,008
<b>Net Increase in Cash and Cash Equivalents</b>	88,486	621,009
<b>Cash and Cash Equivalents - Beginning of year</b>	-	882,160
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 88,486</u></u>	<u><u>\$ 1,503,169</u></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 5,993	\$ 857,193
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Receivables	(6,058)	
Due to/from other funds	(27,869)	(111,149)
Prepaid costs	-	3,000
Accounts payable and accrued liabilities	114,430	(159,043)
Net cash provided by operating activities	<u><u>\$ 86,496</u></u>	<u><u>\$ 590,001</u></u>

# Kalamazoo Regional Educational Service Agency

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## Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2008

	Student Activities Agency Fund
	<hr/>
<b>Assets - Cash and investments (Note 3)</b>	<b>\$ 77,341</b>
	<hr/>
<b>Liabilities</b>	
Accounts payable	\$ 3,849
Due to other funds	2,708
Due to student groups	<hr/> 70,784
Total liabilities	<b>\$ 77,341</b>
	<hr/>

# **Kalamazoo Regional Educational Service Agency**

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## **Notes to Financial Statements June 30, 2008**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of Kalamazoo Regional Educational Service Agency (the "Agency") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Agency:

#### **Reporting Entity**

The Agency is governed by an elected five-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Agency's reporting entity, and which organizations are legally separate, component units of the Agency. Based on the application of the criteria, the Agency does not contain any component units.

#### **District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.



# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2008

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**District-wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to November 30, 1989 generally are followed to the extent that those standards do not conflict with guidance of the Governmental Accounting Standards Board. The Agency has elected not to follow private sector guidance issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements. Exceptions to this general rule are charges between business type and governmental activities where eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Agency.

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2008

### **Note I - Summary of Significant Accounting Policies (Continued)**

Proprietary fund and fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Agency reports the following major governmental funds:

The General Fund is the Agency's primary operating fund. It accounts for all financial resources of the Agency, except those required to be accounted for in another fund.

The Special Education Fund is a Special Revenue Fund used to account for resources that provide special education programs for the Agency.

The 2008 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquisition and construction of new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

The Agency reports the following major proprietary funds:

The Technology Fund is an Enterprise Fund used to account for the operations of the Agency's Technology Services Consortium.

The Agency reports the following other funds:

The Debt Service Funds are used to record property tax, interest, and state aid revenue and the payment of principal and interest on long-term debt related to the 2008 Bonds and the Durant Bond issue.

The Internal Service Funds are used to account for the Agency's self-insured health benefits and retirement incentive program. Costs are charged to the other funds on a cost-reimbursement basis.

The Activities (Agency) Fund is used to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students or other groups.

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2008

### Note I - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The Agency considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied July 1 and December 1 by the 27 municipalities within the Agency's boundaries. The municipalities bill and collect property taxes, then remit them to the Agency. Property tax revenues are recognized when levied to the extent they are deemed to be collectible. The municipalities collect taxes until March 15, at which time real property taxes are turned over to the counties for reimbursement from their revolving tax funds. The municipalities continue to collect delinquent personal property taxes.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

**Restricted Assets** - The unspent bond proceeds and related interest of the 2008 Capital Projects Fund require amounts to be set aside for construction. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Agency does not have infrastructure-type assets.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Vehicles, furniture, and other equipment	5-20 years

**Compensated Absences** - The liability for compensated absences reported in the Agency-wide financial statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

**Long-term Obligations** - In the Agency-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and bond issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data** - Comparative data is not included in the Agency's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2008

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Agency to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Agency increased budgeted amounts during the year in response to revised revenue estimates.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Agency did not have any significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

State statutes and the Agency's investment policy authorize the Agency to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Agency is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Agency's deposits are in accordance with statutory authority.

The Agency has designated three banks for the deposit of its funds.

The Agency's cash and investments are subject to several types of risk, which are examined in more detail below.

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. At year end, the Agency's deposit balance of \$18,005,590 had \$17,605,590 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Agency evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# **Kalamazoo Regional Educational Service Agency**

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## **Notes to Financial Statements June 30, 2008**

### **Note 3 - Deposits and Investments (Continued)**

#### **Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and described in the policy, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Agency will do business using the criteria established in the investment policy. The Agency does not have investments with custodial credit risk.

#### **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Agency's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Agency's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the Agency's cash requirements.

#### **Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Agency's investment policy does not further limit its investment choices.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund	\$ 1,095,013	N/A	AAAm	S&P
FHLB notes	1,957,313	11/14/2008	AAA	S&P
FHLMC notes	1,939,438	10/15/2008	AAA	S&P
FNMA notes	3,907,053	6/8/2009	AAA	S&P
Federated Government Obligations - Money market fund	2,687,191	N/A	AAAm	S&P
AIG - Commercial paper	999,970	7/1/2008	A-I +	S&P
Citigroup - Commercial paper	4,997,194	8/4//2008 - 10/3/2008	A-I +	S&P

### Concentration of Credit Risk

The Agency places no limit on the amount the Agency may invest in any one issuer. The Agency's policy minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the Agency's policy prohibit investment in foreign currency.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 4 - Receivables

Receivables as of year end for the Agency's individual major funds are as follows:

	Governmental Activities			Business-type Activities	
	General Fund	Special Education Fund	2008 Capital Projects Fund	Enterprise Fund - Technology	Total
Receivables:					
Taxes	\$ 34,479	\$ 60,738	\$ -	\$ -	\$ 95,217
Accounts	609,278	187,232	-	6,058	802,568
Accrued interest	-	-	99,820	-	99,820
Due from other governmental units	<u>1,435,124</u>	<u>2,309,663</u>	<u>-</u>	<u>-</u>	<u>3,744,787</u>
Subtotal	2,078,881	2,557,633	99,820	6,058	4,742,392
Internal balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,324</u>	<u>34,324</u>
Net receivables	<u>\$ 2,078,881</u>	<u>\$ 2,557,633</u>	<u>\$ 99,820</u>	<u>\$ 40,382</u>	<u>\$ 4,776,716</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Delinquent property taxes	\$ 40,761	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>-</u>	<u>1,590,859</u>
Total	<u>\$ 40,761</u>	<u>\$ 1,590,859</u>



# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the Agency's governmental activities was as follows:

Governmental activities:	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 390,377	\$ -	\$ -	\$ 390,377
Construction in progress	-	491,956	-	491,956
Capital assets being depreciated:				
Building and building improvements	5,199,431	23,071	-	5,222,502
Vehicles, furniture, and equipment	3,163,200	95,696	146,893	3,112,003
Subtotal	8,362,631	118,767	146,893	8,334,505
Accumulated depreciation:				
Building and building improvements	2,789,522	111,783	-	2,901,305
Vehicles, furniture, and equipment	2,120,052	255,430	136,845	2,238,637
Subtotal	4,909,574	367,213	136,845	5,139,942
Net capital assets being depreciated	3,453,057	(248,446)	10,048	3,194,563
Net governmental capital assets	<u>\$ 3,843,434</u>	<u>\$ 243,510</u>	<u>\$ 10,048</u>	<u>\$ 4,076,896</u>

Depreciation expense was charged to activities of the Agency as follows:

Governmental activities:	
Instruction	\$ 91,730
Support services	262,465
Community services	<u>13,018</u>
Total governmental activities	<u>\$ 367,213</u>

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Fund Due To	Fund Due From						Total
	Governmental Activities			Business-type Activities		Fiduciary	
	General Fund	Special Education Fund	2008 Capital Projects Fund	Internal Service Funds	Enterprise Fund - Technology	Student Activities Fund	
General Fund	\$ -	\$ -	\$ 29,521	\$ -	\$ -	\$ 2,708	\$ 32,229
Special Education Fund	578,307	-	-	2,883	-	-	581,190
Internal Service Funds	129,250	383,790	-	-	6,455	-	519,495
Technology Fund	34,324	-	-	-	-	-	34,324
Total	<u>\$ 741,881</u>	<u>\$ 383,790</u>	<u>\$ 29,521</u>	<u>\$ 2,883</u>	<u>\$ 6,455</u>	<u>\$ 2,708</u>	<u>\$ 1,167,238</u>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from fund investment accounts.

### Note 7 - Long-term Debt

The Agency issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Agency. Capital leases are also general obligations of the Agency. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 677,352	\$ 24,675,000	\$ -	\$ 25,352,352	\$ 913,843
Less deferred amounts -					
Issuance premium/bond issuance costs	-	582,247	1,228	581,019	3,685
Total bonds payable	677,352	25,257,247	1,228	25,933,371	917,528
Capital leases	512,485	-	103,008	409,477	111,591
Other obligations	823,940	748,960	613,043	959,857	666,794
Total governmental activities	<u>\$ 2,013,777</u>	<u>\$ 26,006,207</u>	<u>\$ 717,279</u>	<u>\$ 27,302,705</u>	<u>\$ 1,695,913</u>

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above (governmental) bond and capital lease obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 1,025,434	\$ 1,195,327	\$ 2,220,761
2010	1,437,768	1,002,711	2,440,479
2011	1,576,026	945,455	2,521,481
2012	1,920,710	1,026,594	2,947,304
2013	1,676,891	842,161	2,519,052
2014-2018	10,100,000	3,256,000	13,356,000
2019-2023	8,025,000	812,750	8,837,750
Total	<u>\$ 25,761,829</u>	<u>\$ 9,080,998</u>	<u>\$ 34,842,827</u>

### Governmental Activities

General obligation bonds consist of the following:

\$1,049,516 School Improvement Bond, Series 1998, principal annual installments of \$63,843 to \$399,675 through May 2013; interest at 4.76%	\$ 677,352
\$24,675,000 Building and Site Bonds, Series 2008, principal annual installments of \$850,000 to \$2,765,000 through May 2021; interest at 3.0% to 5.0%	<u>24,675,000</u>
Total bonded debt	<u>\$ 25,352,352</u>

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

**Capital Leases** - The Agency has entered into lease agreements as lessee for financing the purchase of copiers. The copiers are included in capital assets, with a cost basis of \$576,717 and accumulated depreciation of \$82,388. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending June 30	Amount
2009	\$ 140,424
2010	140,424
2011	140,424
2012	46,808
Total minimum lease payments	468,080
Less amount representing interest	58,603
Present value of minimum lease payments	<u>\$ 409,477</u>

Other governmental activities long-term obligations include the following:

Self-insurance	\$ 331,703
Retirement incentives	57,860
Compensated absences and termination benefits	570,294
Total	<u>\$ 959,857</u>

**Durant Non-Plaintiff Bond** - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any Agency debt levy or utilization of any other Agency financial resources.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2008

### Note 8 - Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Agency has purchased commercial insurance for property loss, torts, and errors and omissions claims and participates in the SET-SEG risk pool for claims relating to workers' compensation. The Agency is uninsured for medical claims up to \$150,000 individually and \$3,000,000 aggregately. The Agency has commercial insurance to insure claims in excess of these amounts. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the Agency participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Agency estimates the liability for medical claims that have been incurred through the end of the fiscal year, including both those claims that have been reported, as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in estimated liability for the past two fiscal years were as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 299,767	\$ 219,960
Estimated claims incurred - Including changes in estimates	3,240,951	3,398,812
Claim payments	(3,209,015)	(3,319,005)
Estimated liability - End of year	<u>\$ 331,703</u>	<u>\$ 299,767</u>

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

**Plan Description** - The Agency participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Agency. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2008

### **Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Agency's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$1,732,485, \$1,624,442, and \$1,370,385, respectively.

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were \$1,088,515, \$981,558, and \$952,615, respectively.

## **Required Supplemental Information**

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# Kalamazoo Regional Educational Service Agency

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 14,870,337	\$ 15,299,539	\$ 14,590,037	\$ (709,502)
State sources	2,670,862	2,248,729	2,079,757	(168,972)
Federal sources	3,873,222	5,994,254	5,152,618	(841,636)
Intergovernmental	2,833,433	3,066,143	3,067,454	1,311
Total revenue	24,247,854	26,608,665	24,889,866	(1,718,799)
<b>Expenditures</b>				
Instruction - Basic programs:				
Basic programs	379,132	425,314	423,016	(2,298)
Added needs	-	242,348	242,348	-
Support services:				
Instructional	3,101,226	4,121,535	3,316,482	(805,053)
General administration	347,365	396,707	388,471	(8,236)
Business	329,999	321,181	312,036	(9,145)
Operations and maintenance	455,315	512,768	434,680	(78,088)
Support services - Central	3,467,977	3,835,863	3,084,341	(751,522)
Community services	4,246,052	4,669,985	4,225,967	(444,018)
Debt service	-	140,424	140,424	-
Transfers to local districts	11,793,882	11,671,083	11,770,953	99,870
Total expenditures	24,120,948	26,337,208	24,338,718	(1,998,490)
<b>Net Change in Fund Balance</b>	126,906	271,457	551,148	279,691
<b>Fund Balance - Beginning of year</b>	3,538,486	3,538,486	3,538,486	-
<b>Fund Balance - End of year</b>	<u>\$ 3,665,392</u>	<u>\$ 3,809,943</u>	<u>\$ 4,089,634</u>	<u>\$ 279,691</u>



# Kalamazoo Regional Educational Service Agency

## Required Supplemental Information Budgetary Comparison Schedule - Special Education Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 22,473,152	\$ 22,922,231	\$ 23,470,083	\$ 547,852
State sources	5,006,782	5,478,174	5,431,273	(46,901)
Federal sources	7,245,723	7,283,263	7,284,177	914
Intergovernmental	60,000	70,000	74,479	4,479
Total revenue	34,785,657	35,753,668	36,260,012	506,344
<b>Expenditures</b>				
Instruction - Added needs	11,385,470	11,481,536	11,258,280	(223,256)
Support services:				
Pupil	4,738,323	4,719,293	4,615,293	(104,000)
Instructional	1,975,002	1,583,025	1,577,287	(5,738)
General administration	116,975	124,236	121,869	(2,367)
School administration	163,905	169,252	167,620	(1,632)
Business	449,290	399,780	388,124	(11,656)
Operations and maintenance	1,254,839	1,403,546	1,373,921	(29,625)
Pupil transportation	4,000	2,000	1,814	(186)
Support services - Central	430,834	729,408	663,098	(66,310)
Community services	246,211	253,724	248,738	(4,986)
Transfers to local districts	14,070,808	16,523,279	16,527,590	4,311
Total expenditures	34,835,657	37,389,079	36,943,634	(445,445)
<b>Net Change in Fund Balance</b>	(50,000)	(1,635,411)	(683,622)	951,789
<b>Fund Balance - Beginning of year</b>	2,980,361	2,980,361	2,980,361	-
<b>Fund Balance - End of year</b>	<u>\$ 2,930,361</u>	<u>\$ 1,344,950</u>	<u>\$ 2,296,739</u>	<u>\$ 951,789</u>

## **Other Supplemental Information**

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# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Debt Service Funds		
	2008 Debt Service Fund	Durant Debt Service Fund	Total
<b>Assets</b> - Cash and investments	<u>\$ 3,262</u>	<u>\$ -</u>	<u>\$ 3,262</u>
<b>Fund Balances</b> - Reserved - Debt service	<u>\$ 3,262</u>	<u>\$ -</u>	<u>\$ 3,262</u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	Debt Service		
	2008 Debt Service	Durant Debt Service	Total
<b>Other Financing Sources -</b>			
Proceeds from debt issued	\$ 3,262	\$ -	\$ 3,262
<b>Net Change in Fund Balances</b>	3,262	-	3,262
<b>Fund Balances - Beginning of year</b>	-	-	-
<b>Fund Balances - End of year</b>	<u>\$ 3,262</u>	<u>\$ -</u>	<u>\$ 3,262</u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2008

	Employee Benefits - Health Fund	Employee Benefits - Retirement Fund	Total
<b>Assets</b>			
Cash and investments	\$ 1,503,169	\$ -	\$ 1,503,169
Due from other funds	-	519,495	519,495
Prepaid costs	1,153	-	1,153
Total assets	1,504,322	519,495	2,023,817
<b>Liabilities</b>			
Accounts payable	19,466	-	19,466
Accrued liabilities	362,309	20,801	383,110
Self-insurance estimated liability	331,703	-	331,703
Due to other funds	2,883	-	2,883
Total liabilities	716,361	20,801	737,162
<b>Net Assets - Unrestricted</b>	<b>\$ 787,961</b>	<b>\$ 498,694</b>	<b>\$ 1,286,655</b>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets (Deficit) Internal Service Funds Year Ended June 30, 2008

	Employee Benefits - Health Fund	Employee Benefits - Retirement Fund	Total
<b>Operating Revenue - Charges</b> to other funds	\$ 4,354,299	\$ 232,945	\$ 4,587,244
<b>Operating Expenses</b>			
Health benefits - Insurance	241,362	-	241,362
Health benefits - Claims	3,240,951	-	3,240,951
Health benefits - Administration	114,435	-	114,435
Retirement program benefits	-	133,303	133,303
Total operating expenses	3,596,748	133,303	3,730,051
<b>Operating Income</b>	757,551	99,642	857,193
<b>Nonoperating Revenue - Interest income</b>	31,008	-	31,008
<b>Change in Net Assets</b>	788,559	99,642	888,201
<b>Net Assets (Deficit) - Beginning of year</b>	(598)	399,052	398,454
<b>Net Assets - End of year</b>	<u>\$ 787,961</u>	<u>\$ 498,694</u>	<u>\$ 1,286,655</u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2008

	Employee Benefits - Health Fund	Employee Benefits - Retirement Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from other funds	\$ 4,357,015	\$ -	\$ 4,357,015
Payments to benefit providers	(3,767,014)	-	(3,767,014)
Net cash provided by operating activities	590,001	-	590,001
<b>Cash Flows from Investing Activities - Interest</b>	31,008	-	31,008
<b>Net Increase in Cash and Cash Equivalents</b>	621,009	-	621,009
<b>Cash and Cash Equivalents - Beginning of year</b>	882,160	-	882,160
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,503,169</u>	<u>\$ -</u>	<u>\$ 1,503,169</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 757,551	\$ 99,642	\$ 857,193
Adjustments to reconcile operating income to net cash from operating activities -			
Changes in assets and liabilities:			
Due to/from other funds	2,716	(113,865)	(111,149)
Prepaid costs	3,000	-	3,000
Accounts payable and accrued liabilities	(173,266)	14,223	(159,043)
Net cash provided by operating activities	<u>\$ 590,001</u>	<u>\$ -</u>	<u>\$ 590,001</u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2008

<u>June 30</u>	<u>2008 Bonds</u>	<u>Durant Principal</u>
2009	\$ 850,000	\$ 63,843
2010	1,250,000	66,879
2011	1,375,000	70,064
2012	1,475,000	399,675
2013	1,600,000	76,891
2014	1,725,000	-
2015	1,875,000	-
2016	2,000,000	-
2017	2,150,000	-
2018	2,350,000	-
2019	2,500,000	-
2020	2,760,000	-
2021	2,765,000	-
Total	<u><b>\$ 24,675,000</b></u>	<u><b>\$ 677,352</b></u>
Principal payments due	May 1	May 15
Interest payments due	May 1 and November 1	May 15
Interest rate	3.0% to 5.0%	4.76%
Original issue	<u><b>\$ 24,675,000</b></u>	<u><b>\$ 1,049,516</b></u>



# **Kalamazoo Regional Educational Service Agency**

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**Federal Awards  
Supplemental Information  
June 30, 2008**

# Kalamazoo Regional Educational Service Agency

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## Independent Auditor's Report

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency as of and for the year ended June 30, 2008, which collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements, and have issued our report thereon dated November 11, 2008. Those basic financial statements are the responsibility of the management of Kalamazoo Regional Educational Service Agency. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards and the schedule of expenditures of federal awards provided to subrecipients are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

November 11, 2008

Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency as of and for the year ended June 30, 2008, which collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements, and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kalamazoo Regional Educational Service Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kalamazoo Regional Educational Service Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kalamazoo Regional Educational Service Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kalamazoo Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Kalamazoo Regional Educational Service Agency in a separate letter dated November 11, 2008.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

November 11, 2008

Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

## Compliance

We have audited the compliance of Kalamazoo Regional Educational Service Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of Kalamazoo Regional Educational Service Agency are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kalamazoo Regional Educational Service Agency's management. Our responsibility is to express an opinion on Kalamazoo Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kalamazoo Regional Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kalamazoo Regional Educational Service Agency's compliance with those requirements.

In our opinion, Kalamazoo Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

## **Internal Control Over Compliance**

The management of Kalamazoo Regional Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kalamazoo Regional Educational Service Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

November 11, 2008

# Kalamazoo Regional Educational Service Agency

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount
Clusters:		
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:		
National School Breakfast Program:	10.553	
Project No. 071970 (06-07)		\$ 23,770
Project No. 081970 (07-08)		20,781
Total National School Breakfast Program		44,551
National School Lunch Program:	10.555	
2006-2007		52,314
2007-2008		47,467
Total National School Lunch Program		99,781
Total Child Nutrition Cluster		144,332
Employment Services Cluster - U.S. Department of Labor - Passed through W.E. Upjohn Institute for Employment Research - Employment Services:	17.207	
Project 06-53 (06-07)		287,638
Project 07-53 (07-08)		233,619
Project 07-53 (07-08)		61,862
Project 07-011-07 (07-08)		57,758
Project 07-011-07 (07-08)		3,762
Total Employment Services Cluster		644,639
WIA Cluster - U.S. Department of Labor - Passed through W.E. Upjohn Institute for Employment Research:		
Workforce Investment Act - Adult:	17.258	
Project No. 06-02 (06-07)		505,500
Project No. 08-02 (07-08)		573,072
Project 07-53 (07-08)		64,264
Project 07-011-07 (07-08)		14,175
Project 07-011-05 (07-08) - State-wide funds		19,665
Project 07-011-07 (07-08) - State-wide funds		87,726
Total Workforce Investment Act - Adult		1,264,402
Workforce Investment Act - Youth:	17.259	
Project No. 06-03 (06-07)		1,071,535
Project No. 07-03 (07-08)		1,362,036
Total Workforce Investment Act - Youth		2,433,571



## Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ 19,453	\$ 1,546	\$ -	\$ 5,863	\$ 4,317	\$ -
-	-	-	18,957	20,781	1,824
19,453	1,546	-	24,820	25,098	1,824
44,364	2,663	-	10,613	7,950	-
-	-	-	45,602	47,467	1,865
44,364	2,663	-	56,215	55,417	1,865
63,817	4,209	-	81,035	80,515	3,689
261,755	(25,883)	25,883	-	-	-
-	-	(25,883)	194,146	230,349	10,320
-	-	-	22,652	60,848	38,196
-	-	-	50,942	57,758	6,816
-	-	-	3,318	3,762	444
261,755	(25,883)	-	271,058	352,717	55,776
488,091	(7,359)	7,359	-	-	-
-	-	(7,359)	501,183	560,696	52,154
-	-	-	67,186	63,060	(4,126)
-	-	-	12,501	14,175	1,674
-	-	-	15,679	19,243	3,564
-	-	-	77,373	87,726	10,353
488,091	(7,359)	-	673,922	744,900	63,619
1,030,750	(40,785)	40,785	-	-	-
-	-	(40,785)	1,198,091	1,308,033	69,157
1,030,750	(40,785)	-	1,198,091	1,308,033	69,157

# Kalamazoo Regional Educational Service Agency

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount
Clusters (Continued):		
WIA Cluster - U.S. Department of Labor - Passed through W.E. Upjohn Institute for Employment Research (Continued):		
Workforce Investment Act - Dislocated Worker:	17.260	
Project 07-01 I-07 (07-08)		\$ 22,737
Project No. 06-02 (06-07)		42,765
Project 07-53 (07-08)		66,449
Total Workforce Investment Act - Dislocated Worker		131,951
Total WIA Cluster		3,829,924
Special Education Cluster - U.S. Department of Education - Passed through the Michigan Department of Education:		
IDEA (PL-94-142):	84.027	
Project No. 080490/TS		70,000
Project No. 080450/0708		6,557,526
Project No. 080480/EOSD		55,000
Project No. 80440/0708		4,450
Total IDEA		6,686,976
Handicapped Preschool (94-142) - Project No. 080460/0708	84.173	246,511
Total Special Education Cluster		6,933,487
Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Michigan Department of Community Health Medicaid Outreach:	93.778	
Medicaid Outreach Claims 2007-2008		226,154
Transportation portion of Medicaid 2007-2008		3,800
Total Medicaid Cluster		229,954
Other Federal Awards:		
U.S. Department of Education:		
Direct Programs:		
Partners Advancing School Safety - Project No. Q184E070117	84.184E	483,402
American History:	84.215X	
Project U215X050117 Middle School		992,696
Project U215X070137 Elementary School		982,445
Project U215X030094 High School		986,135
Total American History		2,961,276

## Schedule of Expenditures of Federal Awards (Continued)

### Year Ended June 30, 2008

(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ -	\$ -	\$ -	\$ 20,054	\$ 22,737	\$ 2,683
41,242	(1,523)	1,523	-	-	-
-	-	(1,523)	66,871	65,106	(3,288)
41,242	(1,523)	-	86,925	87,843	(605)
1,560,083	(49,667)	-	1,958,938	2,140,776	132,171
-	-	-	40,000	70,000	30,000
-	-	-	5,620,735	6,557,527	936,792
-	-	-	55,000	55,000	-
-	-	-	276	276	-
-	-	-	5,716,011	6,682,803	966,792
-	-	-	246,511	246,511	-
-	-	-	5,962,522	6,929,314	966,792
-	-	-	226,154	226,154	-
-	-	-	3,800	3,800	-
-	-	-	229,954	229,954	-
-	-	-	87,000	140,551	53,551
289,788	79,293	-	247,700	293,403	124,996
-	-	-	36,200	240,219	204,019
96,619	(16,417)	-	-	16,417	-
386,407	62,876	-	283,900	550,039	329,015

# Kalamazoo Regional Educational Service Agency

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount
Other Federal Awards (Continued):		
U.S. Department of Education (Continued):		
Passed through the Michigan Department of Education:		
Title V:	84.298	
Project No. 080250/0708		\$ 19,991
Project No. 070250/0607		19,348
Total Title V		39,339
Title I:	84.010	
Project No. 071570-0708		210,000
Project No. 061570-0607		210,000
Total Title I		420,000
Vocational Education - Basic grants to states - Project No. 083520/8012-20	84.048	572,661
Improving Teacher Quality (Title II, Part A) - Project 080520/0708	84.367	1,045
Reading First Statewide Activities - Project # 082910 0708	84.357	250,000
Handicapped Infants and Toddlers:	84.181	
Project No. 081340/190		237,130
Project No. 071340/190		245,585
Total Handicapped Infants and Toddlers		482,715
Total noncluster programs passed through Michigan Department of Education		1,765,760
Passed through Calhoun ISD - Safe and Drug Free - Project DRUG 082860-0708	84.186A	873
Passed through Grand Valley State - Research in Special Education - Project ID20 MAP	84.324T	27,649
Passed through St Joseph ISD - Tech Prep:	84.243A	
Project 7014-20		67,082
Project 8014-20		71,216
Total Tech Prep		138,298
Total U.S. Department of Education noncluster programs		5,377,258

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2008**

(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ -	\$ -	\$ -	\$ 6,139	\$ 12,190	\$ 6,051
11,800	1,827	-	9,375	7,548	-
11,800	1,827	-	15,514	19,738	6,051
-	-	-	165,500	210,000	44,500
63,191	3,191	-	113,535	110,344	-
63,191	3,191	-	279,035	320,344	44,500
-	-	-	486,762	572,661	85,899
-	-	-	1,045	1,045	-
-	-	-	191,347	242,193	50,846
-	-	-	199,818	231,903	32,085
212,061	5,716	-	39,240	33,524	-
212,061	5,716	-	239,058	265,427	32,085
287,052	10,734	-	1,212,761	1,421,408	219,381
-	-	-	873	873	-
22,527	(5,122)	-	-	5,122	-
67,082	37,991	-	37,991	-	-
-	-	-	12,535	68,981	56,446
67,082	37,991	-	50,526	68,981	56,446
763,068	106,479	-	1,635,060	2,186,974	658,393

# Kalamazoo Regional Educational Service Agency

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Award Amount
Other Federal Awards (Continued):		
National Endowment for the Arts - Passed through the Michigan Council for Arts & Cultural Affairs:	45.025	
Control # 08AL0020PD		\$ 4,900
Control # 08AL0001UN		2,200
Control # 08AL0021EX		<u>4,000</u>
Total National Endowment for the Arts noncluster programs		11,100
U.S. Department of Health and Human Services:		
Passed through W.E. Upjohn Institute for Employment Research - JET TANF - Project 07-01 I-07	93.558	23,468
Passed through the County of Kalamazoo - Healthy Start Initiative - Project No. IH49 MC 00047-02 Year 7	93.926E	26,306
Passed through the Kalamazoo Community Mental Health Positive Behavior Support:	93.104	
Project No. 1U795SM57047-01(06-07)		162,416
Project No. 1U795SM57047-01(07-08)		<u>344,635</u>
Total Positive Behavior Support		507,051
Passed through the Early Childhood Investment Corporation - Child Care and Development Block Grant:	93.575	
Project No. ECIC 06GSCKazoo07 Interim		53,330
Project No. ECIC 08GSCKazoo07		110,000
Project No. ECIC 06GSCKazoo007		<u>144,367</u>
Total Child Care and Development Block Grant		<u>307,697</u>
Total U.S. Department of Health and Human Services noncluster programs		<u>864,522</u>
Total Federal Awards		<u><u>\$ 18,035,216</u></u>

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2008**

(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ -	\$ -	\$ -	\$ 4,900	\$ 4,900	\$ -
-	-	-	2,200	2,200	-
-	-	-	4,000	4,000	-
-	-	-	11,100	11,100	-
-	-	-	19,557	23,468	3,911
-	-	-	26,306	26,306	-
98,118	51,400	-	108,156	56,756	-
38,976	-	-	130,547	262,019	131,472
137,094	51,400	-	238,703	318,775	131,472
-	-	-	41,494	41,494	-
-	-	-	-	61,857	61,857
110,822	66,884	-	100,429	33,545	-
110,822	66,884	-	141,923	136,896	61,857
247,916	118,284	-	426,489	505,445	197,240
<b>\$ 2,896,639</b>	<b>\$ 153,422</b>	<b>-</b>	<b>\$ 10,576,156</b>	<b>\$ 12,436,795</b>	<b>\$ 2,014,061</b>

# Kalamazoo Regional Educational Service Agency

Program Title/Project Number/Subrecipient Name	CFDA Number	Subrecipient Award/Contract Amount	(Memo Only)	
			Subrecipient Prior Year Expenditures	Due to (from) Subrecipient July 1, 2007
Clusters - Special Education Cluster -				
IDEA:	84.027			
Project No. 080490/TS:				
Comstock		\$ 10,000	\$ -	\$ -
Kalamazoo		10,000	-	-
Portage		10,000	-	-
Subtotal Project No. 080490/TS:		30,000	-	-
Project No. 080450/0708:				
Comstock		273,683	-	-
Kalamazoo		472,568	-	-
Portage		421,318	-	-
Schoolcraft		42,656	-	-
Vicksburg		33,818	-	-
Subtotal Project No. 080450/0708:		1,244,043	-	-
Total Special Education Cluster		1,274,043	-	-
Other Federal Awards:				
Title V:	84.298			
Project No. 070250/0607:				
Heritage		516	382	-
Kalamazoo Christian West		668	-	-
Subtotal Project No. 070250/0607		1,184	382	-



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**Schedule of Expenditures of Federal Awards  
Provided to Subrecipients  
Year Ended June 30, 2008**

Current Year		
Cash	Subrecipient	Due to (from)
Transferred to	Current Year	Subrecipients
<u>Subrecipient</u>	<u>Expenditures</u>	<u>June 30, 2008</u>
\$ 10,000	\$ 10,000	\$ -
10,000	10,000	-
<u>9,999</u>	<u>9,999</u>	<u>-</u>
29,999	29,999	-
273,683	273,683	-
472,568	472,568	-
421,318	421,318	-
42,656	42,656	-
<u>33,818</u>	<u>33,818</u>	<u>-</u>
<u>1,244,043</u>	<u>1,244,043</u>	<u>-</u>
1,274,042	1,274,042	-
79	79	-
<u>668</u>	<u>668</u>	<u>-</u>
747	747	-

# Kalamazoo Regional Educational Service Agency

Program Title/Project Number/Subrecipient Name	CFDA Number	Subrecipient Award/Contract Amount	(Memo Only)	Due to (from) Subrecipient July 1, 2007
			Subrecipient Prior Year Expenditures	
Other Federal Awards (Continued):				
Title V (Continued):				
Project No. 080250/0708:				
Calhoun		\$ 4,504	\$ -	\$ -
East Christian		240	-	-
Hackett		766	-	-
Kalamazoo Christian HS		759	-	-
Kalamazoo Christian Middle		429	-	-
Providence		118	-	-
Reformed Heritage Christian		102	-	-
St. Augustine		556	-	-
St. Monica		796	-	-
Kalamazoo Christian West		610	-	-
Subtotal Project No. 080250/0708		8,880	-	-
Total Title V		10,064	382	-
Vocational Education -				
Project No. 083520/8012-20:	84.048			
Comstock		29,465	-	-
Kalamazoo		45,057	-	-
St. Joseph ISD		148,892	-	-
Portage		46,515	-	-
Total Vocational Education		269,929	-	-
American History -				
Project U215X050117 -	84.215X			
Western Michigan University		152,335	78,525	-
Total payments to subrecipients		\$ 1,706,371	\$ 78,907	\$ -

**Schedule of Expenditures of Federal Awards  
Provided to Subrecipients (Continued)  
Year Ended June 30, 2008**

Current Year		
Cash	Subrecipient	Due to (from)
Transferred to	Current Year	Subrecipients
<u>Subrecipient</u>	<u>Expenditures</u>	<u>June 30, 2008</u>
\$ 4,504	\$ 4,504	\$ -
177	177	-
766	766	-
749	749	-
367	367	-
118	118	-
48	48	-
551	551	-
796	796	-
<u>597</u>	<u>597</u>	<u>-</u>
8,673	8,673	-
9,420	9,420	-
29,465	29,465	-
45,057	45,057	-
148,892	148,892	-
<u>46,515</u>	<u>46,515</u>	<u>-</u>
269,929	269,929	-
32,834	32,834	-
<u>\$ 1,586,225</u>	<u>\$ 1,586,225</u>	<u>\$ -</u>

# Kalamazoo Regional Educational Service Agency

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kalamazoo Regional Educational Service Agency and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

### Note 3 - Adjustments and Transfers

During the year ended June 30, 2008, expenditures were transferred between projects within the same grants, as follows:

Transferred from	Amount	Transferred to
Within Employment Services (CFDA 17.207): Project 06-53(06-07)	\$ 25,883	Project 07-53(07-08)
Within WIA - Adult (CFDA 17.258): Project No. 06-02(06-07)	7,359	Project No. 08-02(07-08)
Within WIA - Youth (CFDA 17.259): Project No. 06-03(06-07)	40,785	Project No. 07-03 (07-08)
Within WIA - Dislocated worker  (CFDA 17.260): Project No. 06-02 (06-07)	1,523	Project No. 07-53 (07-08)

# Kalamazoo Regional Educational Service Agency

## Schedule of Findings and Questioned Costs Year Ended June 30, 2008

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.173 84.215X	Special Education Cluster - IDEA, Handicapped Preschool American History

Dollar threshold used to distinguish between type A and type B programs: \$373,104

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

# **Kalamazoo Regional Educational Service Agency**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

# **Kalamazoo Regional Educational Service Agency**

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**Report to the Board of Education  
June 30, 2008**

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have recently completed our audit of the basic financial statements of Kalamazoo Regional Educational Service Agency (the "Agency") for the year ended June 30, 2008. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational comments which impact the Agency:

	<u>Page</u>
<b>Results of the Audit</b>	2-4
<b>Other Recommendations</b> - Information technology controls recommendations	5-6
<b>Informational Items</b>	7-11
Bond fund audit requirements	
Arbitrage regulations	
Recent auditing pronouncements	
Public Act 106 of 2007	
Michigan business tax changes impacting public schools	
Recent IRS changes to deferred compensation rules	
403(b) annuity plans	

We are grateful for the opportunity to be of service to Kalamazoo Regional Educational Service Agency. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

November 11, 2008



## **Results of the Audit**

November 11, 2008

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have audited the financial statements of Kalamazoo Regional Educational Service Agency for the year ended June 30, 2008 and have issued our report thereon dated November 11, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 1, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Agency. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Agency's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Agency's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 11, 2008 regarding our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the Agency, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 30, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no particularly sensitive estimates identified.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. No such sensitive disclosures were noted.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated November 11, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

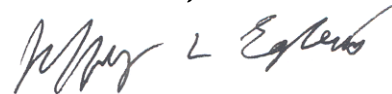
### ***Other Audit Findings or Issues***

In the normal course of our professional association with the Agency, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Agency, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Agency's auditors.

This information is intended solely for the use of the Board of Education and management of Kalamazoo Regional Educational Service Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in dark ink, appearing to read "Jeffrey L. Egberts", written in a cursive style.

Jeffrey L. Egberts, CPA  
Partner

## **Other Recommendations**

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# **Kalamazoo Regional Educational Service Agency**

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## **Other Recommendations**

As part of our audit process, we assessed information technology general controls as part of our overall assessment of internal controls. Resulting from that assessment, we have identified opportunities for the Agency to strengthen IT-related internal controls. The primary goal of internal control is to provide reasonable (as opposed to absolute) protection to the Agency and its assets and financial information. We appreciate that the Agency has limited resources and must look to maximize the benefits from the resources it utilizes. With that in mind, we offer recommendations for the following information technology control features for the Agency's consideration as it continues to improve its operations (specific recommendations for each item below have been communicated to management):

- Access changes
- User access review
- Segregation of duties
- Perimeter controls
- Network authentication controls
- Information security program
- Back-up control procedures
- Antivirus software

## **Informational**

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# **Kalamazoo Regional Educational Service Agency**

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## **Informational**

### **Bond Fund Audit Requirements**

The Michigan Department of Treasury's Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan (the "Audit Guide") was revised in 2006. The bond project will be subject to the provisions in the Audit Guide.

This separate audit includes:

- Use of generally accepted auditing standards and generally accepted auditing standards to account for and audit each fund
- Review of investments for allowability
- Review of expenditures for allowability
- Use of competitive bidding
- For a bond series, an audit is required for each series
- "Closeout Audit" triggered by certificate of substantial completion (AIA-G704)
- "Closeout Audit" must be completed within 120 days of issuance of AIA-G704

The Michigan Department of Treasury allows several alternatives for reporting the audit results. Your Agency's financial statements include the required annual financial statement disclosures. We will work with the Agency and the Department of Treasury to issue the applicable "closeout" report when the project is complete.

### **Arbitrage Regulations**

Arbitrage is an important element of bond management and must continue to be evaluated annually. Essentially, arbitrage is the "benefit" that the Agency receives from issuing bonds at a tax-exempt rate and investing the proceeds at a taxable rate. The IRS has established limits on the amount of "interest spread" that the Agency can earn before amounts must be rebated to the federal government. Amounts in excess of the limit become the arbitrage liability.

Over the last few years, investment interest rates have not risen and have tended to fluctuate in a narrow range. In general, this fact tends to decrease the size of the potential arbitrage liability related to bond issues. The law specifies that each debt issue entered into after August 31, 1986 is subject to the rebate of arbitrage interest earned to the federal government unless one of the exceptions applies.

# Kalamazoo Regional Educational Service Agency

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## Informational (Continued)

### Recent Auditing Pronouncements

The standards initially effective for the June 30, 2008 audits continue the process of redefining how the audit is to be conducted. These standards have changed much of what occurs during the audit process and what is provided to the Board of Education and others charged with governance.

**Statement on Auditing Standards 104 to 111 - The Risk Assessment Standards** - The AICPA issued Statements on Auditing Standards (SAS 104-SAS 111) that have substantially affected the auditing process. The effective date for all Agency audits is for the audit of the financial statements for the year ended June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require the following:

- The auditor to obtain a deeper understanding of (1) the Agency and its internal control for the purpose of identifying the risks of material misstatement in the financial statements and (2) what the Agency is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance to the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process included many new features and elements. We worked with the Agency to understand the elements, involved it in the information gathering process, and performed audit tests focused on the risks embedded in the Agency's financial statements. We appreciate that change can be difficult and time consuming. Our goal was to ensure that any changes made were done with a purpose and that the changes focused on issues directly impacting the Agency.



# **Kalamazoo Regional Educational Service Agency**

## **Informational (Continued)**

### **Public Act 106 of 2007**

In October 2007, the State of Michigan enacted the Public Employees Health Benefit Act. This act was intended to promote greater opportunities for public schools to control the escalating costs of health benefits provided to staff. The act provides for changes in the three following areas:

- Mandates solicitation of competitive bids for health insurance at least once every three years, or when a plan is enacted or substantially modified
- Mandates the release of individual district claims data by existing providers
- Allows for districts to form and participate in health insurance pools

We encourage you to explore the cost-saving options now available. We would be happy to assist you in evaluating your best options to provide optimal health coverage for your staff at competitive prices.

### **Michigan Business Tax Changes Impacting Public Schools**

The State of Michigan has recently replaced the Michigan single business tax with the new Michigan business tax (MBT). Two provisions of the new MBT will impact K-12 funding.

The MBT expands the existing community foundation credit to include educational foundations. If your educational foundation meets certain specified criteria, business donors can receive an MBT credit equal to 50 percent of their contribution, limited to 5 percent of the donor's tax liability or \$5,000. This provision will provide tax incentives to businesses to support educational foundations and, as a result, could lead to enhanced funding for the Agency.

The MBT also provides for personal property tax relief to businesses. Businesses will receive a 24 mill reduction on industrial personal property and a 12 mill reduction on commercial personal property. Most districts will experience a substantial reduction in personal property tax receipts. To offset this reduction, the MBT requires the State to make specific payments to the School Aid Fund. We encourage you to closely monitor these changes and adjust your budgeting and cash flow plans accordingly.

# **Kalamazoo Regional Educational Service Agency**

## **Informational (Continued)**

### **Recent IRS Changes to Deferred Compensation Rules**

The IRS recently announced a change in position surrounding staff who choose to be paid over a 12-month period rather than over the shorter school year. Under the change, the employee will not be considered to have a “deferred compensation” arrangement if:

- The payment of any recurring compensation is not deferred beyond the last day of the 13th month following the beginning of the school year.
- The amount deferred from one taxable year to the next is not more than the general dollar deferral limit in effect under Code Section 402(g) (currently, \$15,500 in 2008) for the calendar year in which the school year begins.
- Prior to this notice, the IRS had taken the position that if an employee elected to be paid over a 12-month period rather than over the shorter school year, the employee had deferred compensation. As a result, both the Agency and the employee needed to comply with the requirements of Code Section 409A, which governed deferred compensation arrangements.

The result of this new notice will “eliminate the possibility of additional tax under 457(f) and 409 for most teachers and schools,” according to the IRS. Taxpayers can rely on Notice 2008-62 immediately, “beginning with the first taxable year that includes July 1, 2008.”

### **403(b) Annuity Plans**

The IRS has finalized regulations that will require schools to take more responsibility in the operation and compliance of their 403(b) arrangements, including operating the plans under a written document. The regulations have a delayed effective date of January 1, 2009. Districts will want to carefully balance the degree of involvement versus delegation as they implement a compliance strategy. It will be important to establish a district plan document and implement vendor agreements that establish the responsibilities of the Agency and the vendor to eliminate confusion and provide a compliance road map. Watch for updates in *Plante & Moran's School Advisor* or in an *Alert* publication.

Currently, the IRS is reviewing 403(b) plans for compliance with the universal availability eligibility requirements. The universal availability rule generally requires that all employees have the right to make salary deferral contributions to the 403(b) plan, with few exceptions. Further, the final regulations reduce the number of exemptions from this requirement.

Effective in 2006, 403(b) arrangements can include a Roth contribution feature. Roth contributions are after-tax contributions that provide for tax-free withdrawals of contributions and earnings if certain requirements are met. The IRS has not yet issued comprehensive Roth 403(b) guidance but, once issued, it is likely that vendors will be proactive in using this feature to initiate a 403(b) marketing effort.